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KZ

SUBJECT: KAZAKHSTAN: CUSTOMS UNION WITH RUSSIA TRUMPING  
WTO WAS LONG FORESHADOWED

REF: A. MOSCOW 1538  
[1](#)B. ASTANA 1005  
[1](#)C. ASTANA 0830  
[1](#)D. ASTANA 0497  
[1](#)E. ASTANA 0198  
[1](#)F. 08 ASTANA 2570  
[1](#)G. 08 ASTANA 2445

Classified By: Ambassador Richard E. Hoagland: 1.4 (B), (D)

[1](#)1. (C) SUMMARY: Recent evidence suggests the Russia-Belarus-Kazakhstan (RBK) Customs Union that Russian Prime Minister Putin announced in Moscow on June 9 was already becoming concrete a reality in May, if not earlier. Even before that, we had ample warning that Kazakhstan was weighing the advantages between WTO accession and the customs union, and increasingly felt that the United States and the European Union were not translating good will at the political-leadership level into concrete results at the technocratic-negotiating level. With Kazakhstan being swept into the vortex of the global financial crisis, Astana increasingly wanted to be shown immediate, tangible benefits of joining the WTO, not future, theoretical benefits. Because of the frequent personal communication between the Russian and Kazakhstani leadership in which Nazarbayev might have voiced his frustrations with the United States and the European Union, we suspect Putin calculated when would be optimal to convince Nazarbayev to postpone Kazakhstan's WTO accession in favor of the Russia-Belarus-Kazakhstan Customs Union. This development represents another step forward for Putinism in Central Asia. With the Collective Security Treaty Organization, Russia already has considerable say in Kazakhstan's military policy. With the RBK Customs Union, Moscow now has considerable influence in Kazakhstan's economic policy. While this latest development is an irritant for the United States (and for the European Union), we recommend that Washington gulp some diplomatic Mylanta and

continue to move forward with developing an enhanced relationship with Astana. We believe Nazarbayev is sincere when he says -- as he has been saying since late last year -- that he needs a better relationship with the United States to better balance his relationship with Russia. We do not believe Nazarbayev is a puppet; rather, in this period of global financial crisis, we suspect he was seduced by the prospect of relatively short-term gain. END SUMMARY,

12. (C) The Ambassador met with European Union Ambassador Norbert Joustin on June 12, who provided a read-out of his meeting earlier that day with Kazakhstan's World Trade Organization (WTO) lead negotiator, Vice Minister of Industry and Trade Zhanar Aitzhanova. What Joustin heard from her corresponded closely to what she told us on June 11 (ref B). According to Joustin, Aitzhanova said, "Kazakhstan is like a region of Russia economically. We cannot continue to divorce ourselves from this reality. The United States and the European Union said nice things to us at the political level, but did not use political will to move us toward a successful conclusion in our WTO negotiations. Your leaders say the nice words, but then your technocrats make demands that do not correspond to our reality. We were at the mercy of your technocrats. We know for a fact that both the EU and the United States were harsher on us than they were with Russia (in the WTO negotiations). Our leadership, constantly in touch with the Russian leadership, decided we were being ill-treated and got fed up. Russia saw the months of 'the policy review period' after the U.S. election and jumped in to take advantage of it. I could do nothing because the United States and the European Union gave me no political

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support." Joustin added that Aitzhanova said, "We think we can continue our bilateral negotiations with the WTO, but the key difference is that we will now enter the WTO in parallel with Russia, not independently. Russia has paid the piper and is picking the song."

13. (C) Although we can't know the insiders' truth, we rather doubt that "Kazakhstan offered a compromise (the week of June 8) on auto and truck tariffs that would bring the customs union into effect on January 1, 2010, but only if the three countries combined their WTO bids into one entry," as Embassy Moscow was told (ref A). Joint entry into the WTO was always Russia's political desire, not Kazakhstan's. There is evidence this was not a spur-of-the-moment decision between Kazakhstan's President Nursultan Nazarbayev and Russia's Prime Minister Vladimir Putin. We suspect Putin took advantage of Nazarbayev's mounting frustration about the WTO negotiations and made him an offer he couldn't refuse. On June 12, Polish Ambassador Pawel Cieplak told our DCM that Russian Ambassador Mikhail Bocharnikov told him toward the end of May that Kazakhstan had decided to abandon its independent WTO accession quest in favor of entering as a customs union with Russia and Belarus. Cieplak added that the Kazakhstanis had been pressing him to provide details on the negative effects that the Polish economy had suffered following its WTO accession. Likewise, French Ambassador Alain Couanon told the Ambassador on June 12 that Bocharnikov had told him in late May, "Watch closely. We will win on WTO for Kazakhstan because you don't understand the Soviet mentality. You think you can assert your political will with words rather than deeds. You say it, but you do nothing, you give nothing. We know how to operate here because this is our historic territory. We're not really against you, my friend; we're for us, and we have it in the bag."

14. (C) Since Putin's June 9 announcement in Moscow, the Kazakhstani media have been trumpeting the advantages of the customs union "victory," emphasizing that it will fully open the Russian market to Kazakhstan. The equally common, but doubtful, argument reported is that international investors will now flock to Kazakhstan because they will have access to the Russian market." In fact, Aitzhanova made this point in passing with the Ambassador when they met on June 11 (ref B).

15. (C) The fact that so many senior officials in Moscow and Astana were blindsided by the announcement on June 9 points to a close-hold decision between Putin and Nazarbayev. We had long been aware that the customs union could derail Kazakhstan's WTO accession negotiations, but continued to receive assurances to the contrary -- most recently on April 27 when Aitzhanova told Deputy Assistant USTR for South and Central Asia Claudio Lilienfeld that Kazakhstan would not enter the customs union at the expense of its WTO bid (ref C).

16. (C) However, in hindsight Aitzhanova's frank conversation with the Ambassador on February 18 (ref D) now seems prophetic. "(Our customs union negotiations with Russia) are not easy, but the customs union is a two-sided process. Unlike WTO negotiations where there is little flexibility (on the part of the United States and the European Union), with Russia everything is open to negotiation and political intervention." She bemoaned that U.S. negotiators remained committed to removing any Kazakhstani local-content provisions from an accession agreement: "This issue is extremely important for President Nazarbayev, and would be too large a concession for us" because almost 90% of the work in Kazakhstan's extractive sector is performed by foreign companies, and the government of Kazakhstan must protect and

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develop domestic industry and human resources, she said. Aitzhanova told the Ambassador if she cannot demonstrate U.S. flexibility in general to President Nazarbayev, "we'll go to the customs union and get immediate benefits." She explained that Kazakhstan had long negotiated patiently, but the global economic crisis had changed the equation. More than ever, President Nazarbayev was becoming frustrated with the glacial pace of the WTO negotiations. She predicted, "Without more flexibility from the United States, the customs union will take precedence."

17. (C) Likewise, on February 3, Prime Minister Karim Masimov told the Ambassador that the proposed customs union could have a strong impact on Kazakhstan's WTO accession. He said that both Russia and Kazakhstan had earlier agreed they would form the customs union only after both entered WTO; but a new option was taking precedence: form the customs union first and have the customs union negotiate WTO accession, which -- he emphasized -- is not Kazakhstan's preference. He suggested that an authoritative call from a U.S. official he knew and trusted would be sufficient for him to go tell Nazarbayev to put the brakes on the customs-union locomotive speeding out of Moscow (ref E).

18. (C) During a two-hour working lunch on December 24, 2008, Aitzhanova told the Ambassador she was still awaiting from Washington the working-party report from the June 2008 session. Commenting on WTO versus the customs union, she was characteristically frank: "Prime Minister Masimov and President Nazarbayev continue to insist on the best deal possible with clear evidence of concrete benefits for Kazakhstan. Without adequate concessions from the U.S. side," she said she would not be able to sell the deal. She also said the global financial crisis was increasing political opinion in Kazakhstan to avoid more international economic integration: "Not everyone is convinced we should go global." She acknowledged that formation of the customs union would present tangible and immediately recognizable benefits that would appeal to the top decision makers, whereas the benefits of WTO accession were increasingly being seen as future and potential. She said, "I am constantly asked by our leadership why U.S. political support for our WTO accession is not translating into actual progress. When I show them the costs of the agreements, they say 'no.' To them, the benefits of the customs union are clear, while the benefits of WTO membership remain theoretical" (ref F).

19. (C) On December 5, 2008, during a lunch in Washington, Kazakhstan's Ambassador to the United States Erlan Idrissov

told the Ambassador that Russia was pushing to lock Kazakhstan into the customs union, which would effectively mean no individual country in the union could join WTO until Russia does and under Russia's terms. He said at that time this pressure from Moscow was motivating Astana to want to speed up its bilateral WTO negotiations with the United States (ref G).

¶10. (C) COMMENT: Hindsight is always 20/20. As this short history suggests, already late last year President Nazarbayev and Prime Minister Masimov were frustrated with the slow pace of WTO negotiations with the United States. With Kazakhstan being swept into the vortex of the global financial crisis, they increasingly wanted to be shown "immediate, tangible benefits of joining the WTO, not future, theoretical benefits." Because of the frequent personal communication between the Russian and Kazakhstani leadership in which Nazarbayev might have voiced his frustrations with the United States and the European Union, we suspect Putin calculated

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when would be optimal to convince Nazarbayev to postpone WTO accession in favor of the Russia-Belarus-Kazakhstan Customs Union, and probably sometime in May, if not earlier, began to lay out his "best offer." In any case, this development represents another step forward for Putinism in Central Asia.

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With the RBK Customs Union, Moscow now has considerable influence in Kazakhstan's economic policy.

¶11. (C) COMMENT CONTINUED: Aitzhanova has told us she and her Russian counterpart will travel to Geneva this week to present the RBK Customs Union as a fait accompli, and to seek a way forward on WTO. We do not believe Kazakhstan will formally withdraw its WTO accession bid, since that would mean starting over from scratch. But it does seem that it will now be Moscow, not Astana, that decides when Kazakhstan will enter the WTO -- and that could be years away. While this is clearly an irritant for the United States (and for the European Union), we recommend that Washington gulp some diplomatic Mylanta and continue to move forward with developing an enhanced relationship with Astana. We believe Nazarbayev is sincere when he says -- as he has been saying since late last year -- that he needs a better relationship with the United States to better balance his relationship with Russia. We do not believe Nazarbayev is a puppet; rather, in this period of global financial crisis, we suspect he was seduced by the prospect of relatively short-term gain.

END COMMENT.

HOAGLAND